Deal focus: Permira passes Tricor baton to Baring

Tim Burroughs | 30 November 2021

Permira helped Tricor Group consolidate its position in Asian corporate services and upgrade its product offering. Under Baring Private Equity Asia's ownership, the CEO wants to build a $10 billion company.

Lennard Yong wanted to lead a truly Asian company. His resume listed three turnaround or transformation projects: ING Hong Kong ultimately became the foundations of FWD; MetLife rose from the backwaters to become one of Hong Kong's dozen largest insurers; and Ageas was renamed FTLife Insurance, repositioned, and then became part of New World Development.

Three rewarding roles, all of them Hong Kong-centric. "I wanted to be a CEO and transform Asia, not just Hong Kong," he says, explaining the decision to join corporate services provider Tricor Group. "I'm a chartered accountant by training and I was a CEO, so I was a customer of Tricor. I was guided by my previous buying behavior – I would ask, 'As a CEO, what would I need and when would I need it?'"

Permira approached Yong about the Tricor role shortly after acquiring the business for $835 million in 2016. The private equity firm deliberately sought to assemble a senior management team of talents drawn from outside the corporate services space. In addition to Yong, a CFO was recruited from business process outsourcing and the chief commercial officer came from health benefits.

"We brought people into an industry that historically didn't have a lot of the DNA that you associate with industries generally known for being more competitive, exacting, and rigorous," says Dan Tan, head of services and technology coverage for Asia Pacific at Permira. "That's a big part of making it work: bringing in people with different toolkits and taking care not to break the culture or process."

The combination of talent, a more commercial mindset, expansion by product and geography, and automation has contributed to revenue and EBITDA growth of 2x and 2.5x, respectively.

Permira recently agreed to sell Tricor to Baring Private Equity Asia (BPEA) for $2.76 billion. The $425 million debt package that supported Permira's buyout was refinanced twice, according to Debtwire. The second refinancing, worth $720 million, included a dividend recap. It continues a rich vein of private equity involvement in corporate services, although this exit outcome was never assumed.

"When we made the investment, we thought there would be strategic interest, but on exit, Tricor was a bit bigger than we expected and the market multiples had gone up, so fewer strategics would have been able to swallow an asset of that size," says Tan. "A couple of the likely buyers were busy doing other transactions, and then the scarcity value made sponsors move the quickest."

Truckload of potential

Permira bought Tricor for 15x trailing earnings, which was described as expensive at the time – although it pales in comparison to the 23x BPEA is said to have paid. The private equity firm took comfort from Tricor's stability, cash-generative qualities, and sticky customer base.

"The retention rate, on a revenue basis, is more than 100%, compounding annually. It's like an annuity," Tan explains. "There was also comfort in the value creation levers. Tricor didn't have a sales team, business was entirely inbound. We knew if we hired a commercial team, it would grow faster. We knew we could average the price down through acquisitions. These were safety valves."

There were other obvious areas for improvement. Tricor was created in 2000 when Bank of East Asia scooped up the Asia corporate services divisions of Deloitte, EY, and PwC, and to some extent, it became an unloved corporate subsidiary. Past acquisitions hadn't been fully integrated, resulting in siloed teams; there had been little investment in areas that could deliver efficiencies; and there was scope for improving and incentivizing management.

"I thought it was a solid franchise with a truckload of potential," says Yong. "There was rapid growth for five years, but then it flatlined for the five or six years preceding Permira. It was typical of corporate administration. Customer satisfaction was high, but this came at a cost in terms of the strain on employees. There was little use of technology."

At the same time, Tricor differed from most of its peers in that the standard corporate services and business services divisions – with competencies ranging from company incorporation to accounting – were accompanied by a third covering investor services and share registry management. There was also a bias towards multinational clients, which delivered a steady stream of work as companies entered new markets and set up new structures.

Efficiencies, credited with expanding gross margins by 500-600 basis points, came in three layers. First, Tricor went paperless within 18 months. Second, head office moved from central Hong Kong to a single floor, open plan arrangement in Kowloon, and certain functions were transferred to lower-cost jurisdictions. Third, optical character recognition and robotic process automation were introduced for document scanning and data processing.

"Rewind to 2017, there were rows and rows of filing cabinets. To get a process done, a piece of paper would change hands 10-20 times. A senior director would have a junior colleague print out something, mark up the changes physically, and the colleague would put it into the system again and print out for checking," Tan recalls. "We hooked them up to the latest version of ViewPoint."

Ten bolt-on acquisitions were completed during the holding period, with headcount increasing 40%, but only one jurisdiction was added – Indonesia – to the 20 represented on acquisition. This largely reflects a strategic decision to focus on Asia rather than pursue a global footprint.

Tricor consolidated its positions in Korea and Vietnam by buying out its local joint venture partners, acquired an existing business in Indonesia, and expanded organically into Taiwan. It also doubled down on the China outbound story, notably through the 2019 purchase of Shenzhen-based Richful Deyong. The company helped Chinese entrepreneurs set up in Hong Kong and elsewhere in Asia by connecting them with third-party providers. Tricor coupled this distribution with its own footprint.

"We were serving China inbound, for example, Goldman Sachs going into Shanghai, but we were not serving Chinese companies coming out. Bank of China doesn't need Tricor, but a provincial bank does. Every year, we capture 1,500 corporations coming out of China," says Yong. "I don't see any of my competitors filling in this gap and it takes about three years to gestate."

Ecosystem agenda

As an Asia-centric business, Tricor's target market comprises multinationals that want to outsource corporate and business services and want to work with providers on a local or regional level rather than on a global level. Grabbing more of this wallet share underpinned another aspect of the M&A strategy: product diversification.

Initiatives included entering the governance, risk, and compliance space and expanding registry management into different aspects of trustee services. Tricor used this broader coverage to support an aggressive cross-selling agenda. It achieved a 24% cross-selling rate between the different business segments, rising to 50% among the top one-fifth of clients.

This more effective utilization of the customer base was instrumental in boosting organic growth from 5% to around 10%. Yong argues that the company isn't even at the halfway mark in terms of fully leveraging cross-selling potential.

Looking forward, Tricor wants to fill the few gaps in its geographic portfolio – notably India – and BPEA's large regional footprint and existing corporate services exposure through Vistra is expected to prove helpful. The company is also shifting focus from quantity to quality of growth, for example by increasing the software-as-a-service (SaaS) share of overall revenue.

However, the opportunity that really motivates Yong is ecosystem development. He identifies several logical areas of expansion: platforms that track ownership and board representation of special purpose vehicles that sit below corporate entities; accounting systems aimed at clients that don't want to pay up for a high-end system like SAP; payroll services; and fund administration.

"Going paperless is a defensive strategy – it's about generating more EBITDA, lowering costs, and increasing gross margins through greater efficiency," he explains. "I'm talking about offensive, laying the foundations for SaaS and data analysis. No CEO has that in their ecosystem. But in the next five years, the first CEO who gets it will create your first $10 billion company in corporate services."

Source: AVCJ